
Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
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University of California (6440)
Hastings College of Law (6600)
California State University (6610)

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II. Overview of Higher Education (UC and CSU) Budgets

Governor's 2006-07 UC/CSU Budget Proposal				
(Dollars in Millions)				
	2005-06	2006-07	Change	
			Amount	Percent
UC				
General Fund	\$2,842.4	\$3,049.2	\$206.8	7.3%
Fee revenue	1,957.6	1,999.9	42.3	2.2
Subtotals	(\$4,800.0)	(\$5,049.1)	(\$249.1)	(5.2%)
All other funds	\$14,600.0	\$14,993.6	\$393.7	2.7%
Totals	\$19,400.0	\$20,042.7	\$642.7	3.3%
CSU				
General Fund	\$2,597.5	\$2,775.8	\$178.3	6.9%
Fee revenue	1,205.3	1,231.3	26.0	2.2
Subtotals	(\$3,802.8)	(\$4,007.1)	(\$204.3)	(5.4%)
All other funds	\$2,198.9	\$2,190.5	-\$8.4	-0.4%
Totals	\$6,001.7	\$6,197.6	\$196.0	3.3%

(A) Governor's Compact with Higher Education. In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) which calls for the Governor to provide the UC and CSU with a specified level of General Fund support as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. This *Compact* mirrors past funding agreements between former Governors Wilson and Davis and the university systems. The Governor's 2006-07 proposed budget provided funding for the first year of this agreement.

Staff notes that this *Compact*, like the *compacts* that came before it, is an agreement between Governor Schwarzenegger and the UC and CSU systems. The Legislature is not part of this funding agreement nor was it consulted when the agreement was being developed. The Office of the Legislative Analyst (LAO) expresses concerns that simply "rubberstamping" the *Compact* would continue an unnerving trend of putting the state budget on "autopilot". Further, the LAO believes that various provisions of the *Compact* are arbitrary, seemingly without connection to the *Master Plan for Higher Education*.

As such, both staff and the LAO recommend that the subcommittee examine the provisions of the Governor's budget proposal with the same level of scrutiny applied to all aspects of the budget, regardless of whether or not the proposals constitute a *compact* between various parties.

Specifically, the *compact* contains the following provisions:

1. *Affected Parties.* *Compact* is between Governor Schwarzenegger and the UC and CSU; the Legislature's concurrence is not part of the agreement.
2. *Time Period.* *Compact* is applicable to fiscal years 2005-06 through 2010-11.
3. *General Support.* Beginning in fiscal year 2005-06 and 2006-07, Governor will provide three percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from 2007-08 to 2010-11), the Governor will provide increases of four percent annually.
4. *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the *Compact*. This equates to approximately 5,149 full-time equivalent students (FTES) at UC and 8,490 FTES at CSU.
5. *Long-Term Funding Needs.* Beginning in 2008-09, through the end of the *Compact* (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
6. *Student Fees.*
 - a) *Undergraduate Fees.* In an effort to better stabilize fees after the sharp increases of the past of couple years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to eight percent in 2005-06 and 2006-07. Thereafter, UC and CSU will increase fees at the rate of change in per capita personal income, with a maximum increase of ten percent.
 - b) *Teacher Credentialing Fees.* Fees will increase by no more than ten percent annually; an eight percent increase in fees is proposed by both UC and CSU in 2006-07.
 - c) *Academic Graduate Student Fees.* Academic graduate student fees will increase by ten percent for both 2005-06 and 2006-07; thereafter, the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors including the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.
 - d) *UC Professional School Fees.* UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs. For the 2006-07 academic year, fees will be increased approximately five percent. (This small increase is intended to provide some respite after last year's hefty professional school fee hikes.)

- e) Student Fee Revenues. UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase with corresponding General Fund reductions as the state has done in recent “bad” budget years).
7. Accountability Measures. In exchange for the Governor’s funding commitment, the UC and CSU agree to the following:
- a) Student Eligibility. Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.
 - b) Community College Transfer Students. Both UC and CSU will continue to accept all qualified community college transfer students.
 - c) Community College Course Transfer. Both UC and CSU will increase the number of course articulation agreements as they relate to academic “majors” with community colleges. In 2005, UC agrees to achieve major preparation agreements between all ten UC campuses and all 108 community colleges, while CSU will establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.
 - d) Summer Term/Off-Campus Enrollment Levels. By 2010-11, both UC and CSU will expand summer session and off-campus offerings and student enrollments by reaching FTES levels equivalent to 40 percent of regular-term enrollments.
 - e) Academic Outreach Efforts. UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least \$12 million and CSU agrees to provide at least \$45 million to continue the most effective academic outreach programs.
 - f) A through G Course Offerings. Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.
 - g) Public Service. UC and CSU agree to strengthen student community service programs.
 - h) Time to Degree. Both UC and CSU will maintain and improve, where possible, students’ persistence rates, graduate rates, and time-to-degree.
 - i) Teacher Candidates. Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

III. Hastings College of the Law

Governor's 2006-07 Hastings College of the Law Budget Proposal				
<i>(Dollars in Thousands)</i>				
	2005-06	2006-07	Change	
			Amount	Percent
Hastings				
General Fund (includes "buy out" of proposed student fee increase)	\$8,363	\$10,148	\$1,785	21.3%
Fees and Other Revenues (publications; continuing education; and grant overhead)	27,197	27,069	-128	-4.7
Extramural Funds (federal funds; private gifts; contracts; grants; endowment)	11,099	7,935	-3,164	-28.5
Lottery Funds	195	195	0	0
Totals	\$46,854	\$45,347	-\$1,507	-3.2%

Governor's Budget. Under the Governor's proposal, the General Fund budget for Hastings College of the Law will increase by: \$253,000 to account for a three percent General Fund increase (similar to the base budget increases being proposed under the *Compact* for UC and CSU) and by \$1.5 million to "buy out" the eight percent student fee increase that had been adopted by the Hastings College of the Law Board of Directors.

Other funds, as noted in the chart above, are not appropriated in the Budget Act and are subject solely to the control and discretion of the Hasting Board of Directors.

One-Time Moving and Temporary Rental Expenses. In the current year, Hastings is undertaking a significant capital improvement (code-compliance upgrade) project on its main administrative office building, which houses administrative and faculty offices as well as the college's law library. The project, which is being financed using state General Obligation Bond Funds, began in October of 2005 and is expected to be completed in the Spring of 2007.

In order to expedite the project, the college has needed to completely vacate the building and relocate all the offices and functions (including the law library) to other facilities. In the current year, Hasting is able to absorb those moving and relocation costs within its existing budget. However, in 2006-07, Hastings will need to provide for office and library moving costs, as well as costs associated with renting external office, library, and storage space. Hastings anticipates that these costs will be approximately \$1.2 million, of which, Hastings is able to absorb approximately \$375,000 – leaving a shortfall of approximately \$776,000.

While some colleges or campuses may be equipped to accommodate these additional costs, Hastings College of the Law is a small college without the economies of scale necessary to meet these one-time expenses.

Staff recommends that the committee approve, as budgeted, the Governor's proposal for Hastings College of the Law and augment that amount by \$776,000, one-time, to cover the additional costs associated with completing the campus code-compliance remodel project.

IV. Student Enrollment Growth.

A. Status of Current Year Enrollment Levels

Pursuant to language adopted as part of the Budget Act, both UC and CSU are required to meet specified enrollment targets; this language has been adopted by the Legislature in recent years to ensure that the dollars appropriated by the Legislature for enrollment growth are indeed used to enroll additional students. If funds are not used to enroll the additional students, and meet the specified targets, the Budget Bill requires that the unused funds be reverted to the General Fund.

In the current year, UC's enrollment target is 205,976 FTES and CSU's target is 332,223 FTES. For CSU, meeting this target has taken a concerted effort among all campuses, an effort which has been successful since CSU is enrolling 334,441 FTES in the current year.

At UC, enrollments are falling short of the goal established in the Budget Bill. UC is estimating that it will fall approximately 500 FTES short of meeting the 205,976 FTES goal. Absent any further action by the Legislature, this shortfall will trigger the reversion of approximately \$3.8 million dollars back to the General Fund to account for this "under-enrollment".

However, staff notes that the circumstances surrounding UC's enrollment decline appear to be unique. UC notes that the entire 500 FTES decline is attributable to a loss of non-resident students, a category of student which is not supported with state General Fund dollars. While the Budget Bill language excludes students in non-state supported summer sessions, it does not specifically exclude non-resident students, although doing so would meet with the Legislature's intent that state enrollment growth dollars be used to support state-funded students.

As such, staff recommends that the committee clarify its intent with regard to this section of the current-year Budget Bill and specify that the language was targeted at state-supported students. Further, staff recommends that the committee request the CSU to examine its enrollment levels in 2004-05 to determine what amount, if any, of its enrollment loss was attributable to non-resident students, and to forward the results of the inquiry to committee staff, the LAO, and the DOF.

B. Enrollment Growth Projections for 2006-07

Pursuant to the *Compact*, the Governor's Budget proposes to fund enrollment growth equivalent to 2.5 percent. For CSU, enrollments are proposed to increase by approximately 8,490 FTES at a cost of \$57.7 million. At UC, this 2.5 percent increase equates to approximately 5,149 FTES and an augmentation of \$52.0 million. Of this amount, \$480,000 and 32 FTES are attributable to increased medical school enrollments (under the PRIME-LC program) at UC Irvine and 800 FTES are attributable to the second year of new students attending UC Merced.

As part of its *Analysis of the 2006-07 Budget Bill*, the LAO conducted a review of enrollment growth projections and trends and determined that providing funding for enrollment growth of 2.5 percent was excessive. Instead, the LAO is recommending that the state fund enrollment growth of 2.0 percent, a level which the LAO believes will easily accommodate population increases in the college-going age range as well as increases in historic college participation rates.

UC, CSU, and the Department of Finance contend that 2.5 percent enrollment growth is consistent with the growth targets outlined as part of the Administration's "*Compact*" with UC and CSU and are needed in order to continue admitting all eligible students (both first-time freshman and transfer students) and get the systems "back on track" after several years of managing enrollments downward.

The California Postsecondary Education Commission (CPEC), in its demographic projections, substantiates the Administration's proposed enrollment growth levels for UC and CSU at 2.5 percent.

Staff recommends that funding for enrollment growth at the proposed 2.5 percent level be placed on the "checklist" pending the Governor's May Revision.

C. Revised Budget Bill Language

Regardless of the enrollment growth level approved by the Legislature, staff recommends that the committee adopt Budget Bill Language outlining a target level of student enrollments for the segments to meet.

However, as discussed earlier, predicting student enrollments is not an exact science, and it has become apparent that it is impossible for the segments to meet a specific FTES target. As such, staff recommends that the committee adopt revised Budget Bill Language (for the 2006-07 Budget Bill) to allow campuses flexibility in meeting

their enrollment targets. Specifically, staff recommends the enrollment targets adopted by the committee include a margin of error to allow the university systems to grow, ensure that dollars appropriated for enrollment growth are indeed utilized for that purpose, but not penalize the institutions when they fail to meet the exact FTES target.

There are several options for establishing the enrollment target "range" recommended above. Regardless of the range, the Legislature would likely want to establish a "floor" below which enrollment dollars would revert to the General Fund.

For 2006-07, assuming that the committee funds enrollment growth at 2.5 percent, the targeted enrollments would be 211,255 FTES for UC (which is the result of an additional 5,149 FTES) and 348,262 for CSU (including an additional 8,490 FTES.)

1. The committee could opt for a one percent margin on the total FTES (this option is being advocated by the CSU). This would result in a "floor" of 209,143 FTES for UC and 344,779 FTES for CSU, thus providing a "hold harmless" provision for 2,113 FTES at UC and 3,483 FTES at CSU. Given the broadness of this range, UC and CSU would be expected to accommodate both state and non-state enrollments in meeting the targeted range.
2. Another option would be for the committee to establish a range based on the increment of enrollment growth being budgeted. This would limit the "floor" to only state-funded FTES. As an alternative to the above-noted option, CSU is proposing a 25 percent margin on the funded growth. For 2006-07, this would equate to the Legislature holding UC harmless for 1,287 FTES and CSU harmless for 2,123 FTES.
3. Other options include variations on the above-noted themes. For example, the Legislature could choose a smaller margin on either the total funded FTES, perhaps 0.5 percent, which would hold UC harmless for approximately 1,056 FTES and CSU would be held harmless for 1,741.

Further, the committee could chose a smaller margin on the funded growth, perhaps 10 percent, which would hold UC harmless for 515 FTES and CSU for 849 FTES.

Staff recommends the committee discuss and adopt a targeted range, as noted above.

D. Status of Year Round Enrollments (Information Only)

In recent years, the Legislature has taken steps to increase the number of UC and CSU student enrolling in courses over the summer session. One of the most sweeping reforms was to provide state support for summer session programs. Previously, all summer sessions were self-supporting, whereby the student bore the entire cost of education. In order to reduce the cost to students and make it more appealing to attend classes over the summer, the Legislature appropriated funds to subsidize

summer session programs (on a campus-by-campus basis). This effort has been met with mixed results.

1. California State University

As student enrollments declined statewide in recent years, student enrollment during the summer also declined. Nowhere was this more apparent than the CSU, which on some campuses ceased offering subsidized summer session programs due to a lack of student demand. Over a one-year period (from 2003 to 2004), summer enrollments at the CSU decreased (on an FTES basis) by approximately 50 percent. Since then, CSU has made an effort to restore those lost summer session students, and have increased enrollments to approximately 85 percent of their 2003 levels.

2. University of California

UC's conversion to a subsidized summer session has been met with more success. Since 2000, UC summer session enrollments have grown dramatically, increasing by over 17,000 FTES or 91 percent. All of the UC general campuses experienced significant summer session enrollment growth during this five-year period with three campuses growing by more than 3,000 FTES.

V. Student Fees. In 2004-05, the Governor proposed his own long-term student fee policy which was aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal or otherwise obtaining Legislative approval, the Governor instead chose to integrate these student fee “principles” into his *Compact* with UC and CSU.

Contrary to his compact, which calls for UC and CSU to increase student fees in 2006-07 by eight percent for undergraduates and ten percent for graduate students, the Governor proposes to “buy out” those fee increases by providing \$54.4 million to CSU and \$75 million to UC in lieu of the revenue they *would* have received from a fee increase.

In the future, the Governor's *Compact* calls for undergraduate fees to increase at the same rate as per capita personal income, starting with the 2007-08 fiscal year, and not exceed ten percent in any given year. Also beginning in 2007-08, graduate student fees are proposed to increase to a level equivalent to 150 percent of undergraduate fees.

According to CPEC, fees at the UC and CSU remain some of the lowest in the nation. At CSU, fees for undergraduate students are roughly half the level of their comparison institutions. For UC, undergraduate fees remain relatively low at \$6,802, compared to the average of \$7,821 at UC's comparison institutions.

The LAO is recommending that the committee reject the Governor's proposed fee “buyout”, adopt modest fee increases for students at the UC and CSU, and examine any remaining unfunded needs at the UC and CSU. Under the LAO's recommendation, which would retain the current share of educational costs borne by students, fees would

increase 3.5 percent (or \$215) at the UC and three percent (\$76) at the CSU, generating an additional \$60 million in revenue.

Staff notes that, since the Legislature was not part of the UC and CSU's "*Compact*" with the Administration, it may take virtually any action it wishes in relation to student fees. After substantial fee increases during the past several years (ranging from 40 percent for undergraduates in 2002-03 to eight percent in the current year) the committee will need to determine if "buying out" a proposed eight percent fee increase for undergraduate students and a proposed ten percent fee increase for graduate students is indeed the manner in which the Legislature would chose to expend approximately \$130 million General Fund.

Further, staff notes that *if* the Legislature is interested in saving General Fund and raising student fees, it could act to increase fees at a smaller percentage than originally proposed under the *Compact* (perhaps increasing fees at the levels proposed by the LAO) and then provide a General Fund "buy out" for the remaining amount (with the goal of meeting the original eight and ten percent fee increase goals). Alternatively, the Legislature could opt to "buy out" less than the eight percent increase proposed for undergraduates and ten percent for graduate students, not increase fees for students, and simply leave the UC and CSU with less revenue than they have assumed.

Following is a recent history of fee levels at the UC and CSU:

	University of California Student Fees				California State University Student Fees			
	<u>Undergraduate</u>		<u>Graduate</u>		<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident	Resident	Nonresident	Resident	Nonresident
1996-97	4,166	12,560	4,667	13,061	1,584	8,964	1,584	8,964
1997-98	4,212	13,196	4,722	13,706	1,584	8,964	1,584	8,964
1998-99	4,037	13,611	4,638	14,022	1,506	8,886	1,584	8,964
1999-00	3,903	14,077	4,578	14,442	1,428	8,808	1,506	8,886
2000-01	3,964	14,578	4,747	15,181	1,428	8,808	1,506	8,886
2001-02	3,859	14,933	4,914	15,808	1,428	8,808	1,506	8,886
2002-03	3,859	15,361	4,914	16,236	1,428	9,888	1,506	9,966
2002-03	4,017	16,396	5,017	16,393	1,573	10,033	1,734	10,194
(fees increased mid-year)								
2003-04	5,530	19,740	6,843	19,332	2,572	11,032	2,782	11,242
2004-05	6,312	23,268	7,928	22,867	2,916	13,086	3,402	13,572
2005-06	6,802	24,622	8,708	23,669	3,164	13,334	3,746	13,916
2006-07	6,802	25,486	8,708	23,669	3,164	13,334	3,746	13,916

Staff recommends that the committee hold this issue open pending the Governor's May Revision.

VI. Student Academic Preparation Programs. Under the Governor's Budget, state funding for both UC and CSU student academic preparation and retention programs would be eliminated (for a reduction of \$17.3 million at UC and \$7 million at CSU).

This action by the Administration appears to be consistent with its "*Compact*" with UC and CSU, which requires UC and CSU to provide at least \$12 million and \$45 million respectively to continue supporting the most effective academic preparation and retention programs, with the Administration failing to guarantee future General Fund support of the programs.

Last year, the UC adopted a new Accountability Framework for its Academic Preparation programs. Under this new Accountability Framework, programs are charged with meeting broad academic achievement goals over a three- to five-year period. The goals for students participating in these programs include: (1) completing the A-G college preparatory course pattern in high school; (2) being academically ready for a four-year college (not just UC); (3) completing high school (by graduating and passing the CAHSEE); and (4) being ready to transfer to a four-year institution as a community college student. In addition, programs have the goal of establishing and maintaining K-20 educational partnerships.

In its recent report to the Legislature on Student Academic Preparation and Educational Partnerships, the UC reports that its programs have made increased progress towards meeting the goals outlined above.

Staff notes that while the university systems, students, and the Legislature continue to tout the success of student academic preparation programs, retaining state funding to support these programs has turned into a perennial issue for the Legislature. Each year the Administration cuts funding for the programs and the Legislature fights to restore it. While funding for student academic preparation is clearly a high priority for the Legislature, the catalyst behind the Administration's reluctance to fund these programs remains unclear.

While not explicitly raised as an issue in its *Analysis of the 2006-07 Budget Bill*, student academic preparation programs are generally supported by the LAO. Consistent with prior analyses of the Budget Bill, the LAO recommends a new approach to funding academic preparation programs. Under the LAO's recommendation, the state would implement a new College Preparation Block Grant program, whereby the Legislature would shift the funding away from the university systems and instead target those funds K-12 school districts with low college participation rates.

Staff recommends that funding to *backfill* the reductions contained in the Governor's Budget (\$17.3 million for UC and \$7 million for CSU) be approved by the committee.

VII. Nursing Education.

Current Year

As part of a coordinated effort by the Legislature and the Administration to increase the state's supply of nurses, the current year budget contains \$560,000 for the CSU to develop entry-level master's degree (ELM) programs in Nursing. ELM programs allow students who earned a Baccalaureate degree in an unrelated subject to earn a master's degree in Nursing, while also obtaining the skills and qualifications to become a Registered Nurse (RN). An additional \$3.4 million, which was appropriated to UC and CSU in a budget trailer bill (Chapter 592, Statutes of 2005), was aimed at increasing the capacity of ELM programs by providing for infrastructure needs such as classroom and laboratory renovations, developing curriculum, recruiting faculty, and replacing instructional equipment. At UC, the funds were allocated to three campuses (Los Angeles, San Francisco, and Irvine) to plan for increased nursing enrollments in future years, including the development of a new Baccalaureate degree program in Nursing at UC Irvine.

2006-07 Proposal

As part of the Governor's Budget, the Administration is proposing to continue the commitment outlined in the 2005 budget trailer bill by appropriating \$1.720 million to both UC and CSU to specifically increase enrollments in nursing programs (thus providing General Fund to support the additional increment of cost in the programs.)

While the language in the 2005 budget trailer bill calls for UC and CSU to increase, by at least 130 FTES, the number of students in 2006-07 specifically enrolled in ELM nursing programs, the Governor's budget proposal takes a "looser" interpretation. The language proposed in the budget bill states only that the UC and CSU should "give priority" to increasing enrollments in ELM programs; thus, the dollars in the budget could be used to increase enrollments in Baccalaureate-degree nursing programs or traditional masters degree programs, which was not the original intent of the Legislature when it passed the implementing legislation.

Staff recommends that the committee approve the \$3.44 million proposed in the Governor's Budget for Nursing, but target the dollars specifically at students enrolled in Entry-Level Master's Degree Programs, as originally called for in legislation.

In addition to the funds noted above, the Administration is also proposing to continue appropriating \$560,000 to the CSU to "support the development of entry-level master's degree programs in nursing." In the current year, those funds were used for development and start-up costs, costs which should be one-time in nature. As such, it's unclear why additional start-up funds would be needed in 2006-07. In addition, the CSU has indicated that it intends to use these funds to support the educational costs of students enrolled in ELM programs. As such, staff recommends that the committee adopt revised Budget Bill Language, as follows, to clarify the use of these funds:

"Item 6110-001-0001, Provision 8:

Of the amount appropriated in Schedule (1), \$560,000 is to support ~~the~~ development of 280 full-time equivalent students in entry-level master's degree programs in nursing, pursuant to Article 8 (commencing with Section 89270) of Chapter 2 of Part 55 of Title 3 of the Education Code. This funding is intended as a supplement to marginal cost support provided in CSU's enrolment growth funding, in recognition of the higher costs associated with entry-level master's nursing programs."

Further, staff notes that there may indeed be a need to increase the number of students enrolled in Baccalaureate degree nursing programs as well. As such, staff recommends that the committee place additional funding to increase enrollments in Baccalaureate degree nursing programs on the "checklist" pending the May Revision.

VIII. Governor's Math/Science Initiative. As part of the current year Budget Act, the Legislature appropriated \$250,000 to the CSU and \$750,000 to the UC to increase the number of math and science teachers. In addition to this broad goal, CSU was charged with "coordinating the development of curriculum and services for four-year blended credential programs for math and science majors".

At the UC, funds were used to establish resource centers at each campus. Specifically, funds were used for start-up costs, including hiring staff, and establishing processes for tracking students, and helping students obtain teaching placements in K-12 schools. At the CSU, funds are being used to develop additional on-line programs targeted at "upgrading" single-subject credential holders to multi-subject credentials. Funds are also being used for outreach to students in community colleges to encourage them to become math and science teachers.

As part of his 2006-07 Budget, the Governor proposes to continue his commitment to the Math and Science Initiative by providing UC with \$1.1 million to fully-fund their campus-based resource centers and CSU with \$1.4 million. CSU intends to use the additional funds to (1) develop multiple math and science teaching credential pathways; (2) continue providing outreach and recruitment to community colleges students; (3) stage a PR campaign, including web site development and printed materials; and (4) administer the program, including hosting statewide conferences and meetings.

Staff recommends that funding for this project be placed on the "checklist" pending the Governor's May Revision.

IX. State-Funded Research at UC.

Budget Bill Language

In recent years, the Legislature has removed language from the Budget Bill which outlined the level of state support available for specific research priorities. The absence of Budget Bill language has -- in light of the budget reductions in recent years -- given UC the authority to shift dollars between various research programs; however, the absence of language has made it difficult for the Legislature to track General Fund spending in this area.

Of the amount proposed to be appropriated to UC for state supported research (\$260 million total), approximately \$22 million is specifically for research program initiated by, and of continued interest to, the state Legislature.

Staff recommends that the committee adopt Budget Bill language to specify the amount of state funding which will be used to support the following research programs:

(1) Center for Earthquake Engineering Research; (2) viticulture and enology research; (3) substance abuse research; (4) the Welfare Policy Research Project; (5) lupus research at UC San Francisco; (6) spinal cord injury research; and (7) the Medical Investigation of Neurodevelopment Disorders (MIND) Institute.

Labor Research

For the fourth year in a row, the Governor's Budget deletes all funding (\$3.8 million) for the labor-related research at the UC. As part of the current-year budget negotiations, the Legislature augmented the UC's budget to provide funding for these research activities, only to have the language vetoed by the Governor. While dollars were not provided in the current year for labor research, the UC has indicated that it intends to redirect approximately \$1.25 million, on a one-time basis, from within its budget to cover the labor research activities in the current year.

Restoration of funds for labor-related research is a perennial issue for the Legislature. Since this issue was first before the Legislature, the Institute for Labor Studies, whose activities were questioned by some, has been disbanded and replaced with research-only programs on the Berkeley and Los Angeles campuses.

Staff recommends that the Legislature place \$3.8 million for labor research (with accompanying provisional language) on the "checklist" pending the May Revision.

X. Capital Fellows Program. The Center for California Studies and the Capital Fellows Program, which is housed at the California State University, Sacramento, is requesting that the committee consider an augmentation of \$230,000. Specifically, the Center cites a budget that was reduced in recent years, coupled with increased costs per fellow (specifically tied to increased student fees and increased benefit costs).

As part of last year's budget process, the Legislature approved an augmentation of \$309,000 for the fellows program to help address these increased costs; the Governor vetoed all but \$82,000.

Staff recommends that the committee approve the requested augmentation of \$230,000 for the Center for California Studies and Capital Fellows Programs.

XI. UC Compensation Reporting. At a special meeting of the UC Board of Regents on Thursday, April 13, 2006, UC's Task Force on Compensation, Accountability, and Transparency -- which was appointed shortly after the public release of UC's controversial compensation practices and policies -- made a set of policy recommendations to the Regents aimed at increasing the level of accountability on UC's compensation practices.

This special meeting of the Regents is the first to examine recommendations from an external task force on the topic of compensation. The Regents are expected to convene another special session on Monday, April 24, 2006, to discuss an audit by Price Waterhouse Coopers of the compensation practices for UC's senior management. In early May, the Bureau of State Audits is expected to conclude its work on this topic as well.

Staff recommends that representatives from the UC task force present a truncated version of their recommendations to the committee.

As an additional note, two pieces of legislation (Senate Bills 1181 and 1571, Maldonado) are slated to be heard in the Senate Education Committee this week. Both bills, each of which takes a slightly different approach, would request that the UC report various aspects of its compensation policies and practices to either CPEC or to the General Public (via a web site posting).

While staff recommends that the Legislature adopt some form of reporting language related to compensation, it remains unclear whether the reporting requirement should be statutory, tied to the annual Budget Act, or part of the Legislature's Supplemental Reporting Language process. As such, staff recommends that the committee request staff, UC, and the LAO to develop language to present to the committee for action by the May Revision.

XII. Proposed Consent

Staff recommends that the following items be Approved as Budgeted:

- 6440-001-0007 Support, University of California. Breast Cancer Research \$12,776,000
- 6440-001-0046 Support, University of California. Institute of Transportation Studies \$980,000
- 6440-001-0234 Support, University of California. Cigarette and Tobacco Products Surtax Fund, Research Account \$14,253,000
- 6440-001-0308 Support, University of California. Earthquake Risk Reduction Fund \$1,500,000
- 6440-001-0321 Support, University of California. Oil Spill Response Trust Fund \$1,300,000
- 6440-001-0890 Support, University of California. Federal GEAR UP Program \$3,500,000
- 6440-001-0945 Support, University of California. California Breast Cancer Research \$473,000
- 6440-001-3054 Support, University of California. Chapter 795, Statutes of 2002 \$235,000
- 6440-002-0001 Support, University of California. Ongoing deferral of expenditures from June 30th to July 1st (\$55,000,000)
- 6440-003-0001 Support, University of California. Debt Service \$158,327,000
- 6440-004-0001 Support, University of California. Merced Campus \$24,000,000
- 6440-005-0001 Support, University of California. Institutes for Science & Innovation \$4,750,000
- 6440-011-0042 Transfer by Controller from State Hwy. Acct.,
Earthquake Risk Reduction Fund of 1996 (\$1,000,000)
- 6440-490 Reappropriation, University of California.
- 6610-001-0890 Support, California State University. Federal Trust Fund \$39,000,000
- 6610-003-0001 Support, California State University. Debt Service \$64,597,000
- 6610-490 Reappropriation, California State University.